Free Trade Is Dead, Despite U.S. 'Fast-Track' Vote

by Marcia Merry Baker

In a great irony, the "fast-track" trade negotiating authority passed by the U.S. Senate on May 23 (included in H.R. 3009, and called "trade promotion authority"), came at a time when world trade volume and economic activity are spiralling downward, and certain countries, most notably China, are beginning to reconsider all "free trade" commitments. Moreover, it was the United States itself that started the policy-shift away from free trade, by its steel and lumber tariffs, and new farm law subsidies this Spring.

There's no going back. The whole *system and institutions* of the free-trade model are finished. As the old English rhyme would have it, "free trade is dead; a candle lights its head." An unintended eulogy was delivered by President George Bush, when he responded on May 24 to the news of the Senate "fast-track" vote, while in Russia: "As I begin my trip here in Europe, the passage of this bill sends an important signal to our trading partners that we are committed to free and open trade." Nothing doing. Bush's "free trade is alive and well" is no truer than "the recovery is coming."

The U.S. signal of a shift away from free trade—sent earlier this year by specific actions in response to domestic industrial, construction, and agriculture crises—has been rightly seen by trading partners as a major policy alteration. Of course, so far the reaction among advocates and victims of free trade alike, with few exceptions, are howls of protest, that the United States unilaterally threw over the "rules of the game." But while threatening retaliation, discussion in some nations is beginning, on how to take advantage of the opportunity to renew national-interest-serving economic and trade measures, and give up the free-trade game altogether.

The biggest reaction has come from the free-trade-era institutions themselves—the International Monetary Fund (IMF), the World Trade Organization (WTO), and the World Bank. These agencies are the very ones whose policies have brought the world economy into the current depression, and they are demanding that countries must not try to "protect" themselves, but continue to commit economic suicide instead. A joint statement released on May 15, co-signed by IMF Managing Director Horst Köhler, WTO Director General Michael Moore, and World Bank President James Wolfensohn, insisted, "Any increase in protectionism . . . is damaging . . . sending the wrong signal, threatening to undermine the ability of governments everywhere to build support for market-oriented reforms."

The United States did not need to be mentioned by name. Its specific measures taken this spring include:

March 8: President Bush announced that import tariffs would be placed on certain categories of imported steel products, in the range of 16-26%, for three years.

March 22: The administration announced that tariffs of up to 29% would be imposed on softwood imports from Canada, under certain terms and duration.

May 13: President Bush signed into law the new six-year agriculture act, which included among its provisions, expanded categories and increased rates of Federal financial support to farming (commodity price deficiency payments, loans, etc.).

May 14: The Senate voted up a "killer" amendment, sponsored by Mark Dayton (D-Minn.) and Larry Craig (R-Id.), to the pending fast-track bill. It reserved the right to alter any trade pact, including imposing anti-dumping remedies. Craig said that lawmakers must retain the right to act "on behalf of Americans who have been, are being, or will be harmed by continuing trade legislation."

That same day, U.S. Trade Representative Bob Zoellick denounced the Senate move as "protectionism under the cover of procedure." And on May 21, Zoellick told the World Economic Forum Spring meeting in Washington, that the amendment will be stricken from the final conference version of the bill, so that President Bush can sign it.

The process began with President Bush's attempt to save the disappearing American steel industry in early March. The steps since have not been pretty, but nations facing industrial and wage collapse are reaching toward "fair trade;" the "free trade" WTO is finished, and may not rest in peace, but burn in Hell.

Be that as it may. The point is dramatically clear that free trade is no longer supreme in Washington.

Reactions in Asia and Euroland

As a result of these moves, chain reactions are taking place. The boldest is from China, where officials are indicating they may reconsider the WTO restrictions on domestic assistance to farmers, given what the United States has just enacted for its farmers. This point was raised specifically at a seminar in Beijing on May 22, by China's Vice Minister for Foreign Trade Long Yong-tu, who, according to press accounts, confronted former U.S. Trade Representative Charlene Barshefsky at the event, with the question, "Why can't we?"

This confrontation, occurring at a Dow Jones seminar, was especially symbolic, since Long was China's negotiator for the 13 years of discussion on the terms of its entry into the General Agreement on Tariffs and Trade-WTO. The United States has repeatedly maintained the WTO tenet that China—or any nation—has no right to food self-sufficiency, but must rely on free-trade food access, and delimit aid to farmers.

On May 22, *China Daily,* the official government newspaper, announced that on May 24, tariffs would begin on nine types of steel imports, ranging from 7-26%, from any nation of origin, including Japan, South Korea, or the United, for instance. This has forced the issue throughout Asia, of what should be the new direction of trade. It is also possible that China will lift the suspensions on tariffs on a range of products imported from the United States, from soybean oil to paper products.

In Europe, the Paris conference on May 15-16 of 30 nations of the Organization of Economic Cooperation and Development (OECD), at its ministerial meeting on the WTO Doha Trade and Development Agenda, heard non-stop denunciations of the recent U.S. tariff and farm measures. The May 18 *Asia Times* reported that the ministers came to Paris "to express their barely contained rage."

The joint statement against protectionism, by the WTO, World Bank, and IMF, was delivered to the gathering.

U.S. Trade Representative Zoellick stayed away from the OECD conference, sending his Deputy, Peter Allgeier, to take the heat. Also representing the United States in Paris was White House economics consultant Glenn Hubbard, whose job it was to deliver the pathetic "Big Myth" that expected growth in the U.S. economy this year would be 3 to 3.5%, and would help drive the world economy.

The OECD nations released a final communiqué pledging "to reject the use of protectionism," and they continued to plan retaliation against the United States.

Beginning on June 18, Japan intends to impose its first-ever retaliatory tariffs on U.S. products, slapping 100% duties on $4.88 million of U.S. steel plate imports. Another $118.55 million in tariffs could be applied, if the WTO were to decide that U.S. steel tariffs violated trading rules.

The European Union (EU) issued a statement on May 15, on its plans against the United States steel tariffs. "In response to the illegal U.S.A. safeguard measure on steel products, and in full compliance with the WTO Agreement of Safeguards, the EU has notified the WTO the lists of potential suspension of concessions which would be applied if the U.S.A. does not remove the safeguard measure," it said. The EU has drawn up a "long list" to go into effect upon "condemnation by the WTO" of the United States; and a "short list" which could go into effect on June 18, "if the U.S.A. does not offer in the meantime compensation for its measure."

German Farmers Celebrate

Perhaps the most sensible reaction so far, is that of the German Farmers Union Federation. On May 7, it issued a statement on the new protectionist-leaning U.S. farm law, welcoming it as an opportunity to dump the propaganda and pretenses of "free markets" that have been degrading farming the world over. They said the U.S. move admits free markets have "failed."

Under cutthroat "free" rigged trade, food trade patterns have become so bad that in 2001, for the first time in decades, the EU became a net importer of grain! This is insane, given the high-yield grain output potential in its 15 member-nations, particularly France. The EU grain import shift reflects how the world food cartel companies—Cargill, ADM, Dreyfus—have forced dirt-cheap food output from East European and other cartel-dominated sources.

In its May 7 press release, the German Farmers Union Federation said, "With the new law, the U.S. government declares that the idea of free trade and totally liberalized agriculture markets has failed." The German farmers drew out the implication: The U.S. shift refutes the position of the German government, which has been demanding a further reform in the EU in the direction of free trade.

The German farmers' point is well taken, for all nations: We are at the end-phase of economic breakdown of the period characterized by outsourcing, deregulation, and so-called "free" (rigged) markets and trade. So now it is a matter of urgency to resume policies which build up national economies. Why complain?

The significance of this potentiality was addressed by Lyndon LaRouche in a May 11 campaign paper, " 'Fair Trade' as a Phase-Shift." Referring to the March 8 announcement of steel tariffs, LaRouche said, "The step toward 'fair trade,' away from 'free trade,' is a step in the right direction, but before stepping too far in that direction, it will be necessary to build the relevant bridge across the relevant, waiting chasm." The "chasm" is the economic and financial collapse process is under way, and must be addressed.

Trade Already Declining

Economic activity, including international commerce, has been contracting for many months. In terms of tonnage, units, and volume, trade flows were already declining rapidly over the past year, well before the so-called U.S. anti-free-trade shift.

The annual trade survey released on May 2 by the WTO states that world exports fell 4% in value in 2001 from the year before; and 1% in volume. The drop of $6 trillion in value, hitting all three major merchandise product groups—agricultural, mining, and manufacturing—was the largest yearly decline in 20 years.

The rate of fall in trade is also increasing. In the fourth quarter of 2001, the volume of world exports had fallen to 6% below the previous year. The nations with the largest export decline, were those trading intensively in information technology—East Asia and the United States.

Look at the U.S. import and export statistics. The gigantic annual deficit of over $400 billions in goods trade is well known. But even while the United States has been import-dependent, in recent months there is now a major *drop in the volume of both exports and imports.* The United States no longer commands the purchasing power to be "importer of last resort," or to maintain its deficit. The system itself—such as it was—is collapsing. From January to March, compared to the same time in 2000, the value of U.S. goods imports fell from $292.547 billion down to $272.763 billion. The value of exports, in the same January-March period, dropped from $185.142 billion in 2000, down to $164.960 billion this year. This is the downward spiral.

At present, the value of the dollar itself—the currency of the free-trade era—is declining. As of late May, the dollar had fallen to eight-month lows against the euro and others. The flow of currencies *into* the United States—what supported the U.S. goods import dependence—is drying up. For example, for the first two months of 2002, foreign investors purchased $11 billion of U.S. stocks, compared to the $33 billion they bought during the first two months of 2001—a fall of two-thirds.

Another reading on the decline of the dollar, is the rising price of gold. On May 24, it reached $322.50 an ounce, the highest in two years, rising the day earlier by $4.50 in one day.

Fast Track to Nowhere

Thus, given the decline of the trade system—free, rigged, or otherwise—the U.S. Senate vote on May 23, of 66-30, for "Trade Promotion Authority" for the President, is a vote for a "fast track to nowhere." (The House of Representatives passed a companion bill in December, by a one-vote margin of 215-214.)

In one of the speeches on the Senate floor against the bill, Paul Sarbanes (D-Md.) gave a short history of U.S. trade legislation, stressing how the record shows that deregulation of trade negotiating powers is not necessary, and moreover, unconstitutional.

In 1934, under President Franklin Roosevelt, the Reciprocal Trade Act was passed. For the next 40 years, trade treaties were successfully negotiated. It was done under discretionary power known as "proclamation authority," where the Executive could negotiate, and tariffs could be set within the limits of duration, and other conditions set and reviewed by Congress. This is proper under the duties of Congress defined under the Constitution, Article 2, Section 8, to "regulate foreign commerce."

Now, even if the President is wrongfully given fast-track authority, economic reality is intervening to nullify any attempted unconstitutional and unfounded act by government. What comes next is the challenge LaRouche cited.